

*Galesburg-Charleston Fire Department
Kalamazoo County*

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Year ended June 30, 2007

CONTENTS

	<i>Page</i>
INDEPENDENT AUDITORS' REPORT	3
BASIC FINANCIAL STATEMENTS	
Statement of governmental fund balance sheet/statement of net assets	4
Statement of revenues/expenditures, and changes in fund balance/ statement of activities	5
Notes to financial statements	6 - 9
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule - Operating Fund	10

INDEPENDENT AUDITORS' REPORT

Members of the Board Galesburg-Charleston Fire Department

We have audited the accompanying financial statements of the governmental activities and the major fund of Galesburg-Charleston Fire Department (the Department), as of June 30, 2007, and for the year then ended, which collectively comprise the Department's financial statements, as listed in the contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the respective financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Galesburg-Charleston Fire Department as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison schedule, on page 10, is not a required part of the basic financial statements of the Galesburg-Charleston Fire Department, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Department has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Siegfried Crandall P.C.

July 8, 2008



1958-2008

BASIC FINANCIAL STATEMENTS

Galesburg-Charleston Fire Department

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS

June 30, 2007

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of net assets</u>
ASSETS			
Cash	\$ 1,533	\$ -	\$ 1,533
Capital assets	<u>-</u>	<u>592,602</u>	<u>592,602</u>
Total assets	<u>\$ 1,533</u>	<u>\$ 592,602</u>	<u>594,135</u>
LIABILITIES			
Accounts payable	\$ 679	\$ -	<u>679</u>
FUND BALANCE	<u>854</u>	<u>(854)</u>	-
Total liabilities and fund balance	<u>\$ 1,533</u>		
NET ASSETS			
Investment in capital assets		592,602	592,602
Unrestricted		<u>854</u>	<u>854</u>
Total net assets		<u>\$ 593,456</u>	<u>\$ 593,456</u>
Operating Fund - fund balance			\$ 854
Amounts reported in the statement of net assets are different because:			
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the fund.			<u>592,602</u>
Net assets of <i>governmental activities</i>			<u>\$ 593,456</u>

See notes to financial statements

Galesburg-Charleston Fire Department**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE/STATEMENT OF ACTIVITIES***Year ended June 30, 2007*

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
EXPENDITURES/EXPENSES			
Fire protection - operations	\$ 99,651	\$ 69,723	\$ 169,374
Capital outlays	<u>79,609</u>	<u>(79,609)</u>	<u>-</u>
Total expenditures	<u>179,260</u>	<u>(9,886)</u>	<u>169,374</u>
PROGRAM REVENUES			
Intergovernmental charges:			
Charleston Township	55,000	-	55,000
City of Galesburg	<u>55,000</u>	<u>-</u>	<u>55,000</u>
Total intergovernmental charges	110,000	-	110,000
Capital grants and contributions	73,079	-	73,079
Cost recoveries and other	<u>4,563</u>	<u>-</u>	<u>4,563</u>
Total program revenues	<u>187,642</u>	<u>-</u>	<u>187,642</u>
EXCESS OF REVENUES OVER EXPENDITURES/CHANGE IN NET ASSETS	8,382	9,886	18,268
FUND DEFICIT/NET ASSETS - BEGINNING	<u>(7,528)</u>	<u>582,716</u>	<u>575,188</u>
FUND BALANCE/NET ASSETS - ENDING	<u>\$ 854</u>	<u>\$ 592,602</u>	<u>\$ 593,456</u>
Net change in fund balance			\$ 8,382
Amounts reported in the statement of activity are different because:			
Capital assets:			
Additions			79,609
Provision for depreciation			<u>(69,723)</u>
Change in net assets			<u>\$ 18,268</u>

See notes to financial statements

Galesburg-Charleston Fire Department
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Galesburg-Charleston Fire Department (the Department), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Department. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Department has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Department's financial statements. Also, the Department is not a component unit of any other entity.

The Department is a jointly governed organization created by the Township of Charleston and the City of Galesburg to provide fire protection within the participating municipalities. Costs of operations and capital expenditures are supported by contributions from the participating municipalities. The Board of the Department is composed of two members from each of the municipalities and one at-large member.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all activities of the Department. Currently, all activities of the Department are classified as governmental activities, primarily supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Intergovernmental support and other items not properly included among program revenues are reported instead as general revenue.

Financial statements are provided for the sole governmental fund as a separate column in the basic financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Intergovernmental revenues are recognized in the year for which they are intended. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Galesburg-Charleston Fire Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

The governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports a single major governmental fund, the Operating Fund, which accounts for all financial resources of the Department.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) intergovernmental support from sponsoring municipalities, (2) charges to customers or applicants for cost recoveries or privileges provided, and (3) operating/capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

d) Assets, liabilities, and fund equity:

i) Bank deposits - Cash consists of demand deposits and savings accounts.

ii) Capital assets - capital assets, which consist of vehicles and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are depreciated using the straight-line method over the following useful lives:

Building and improvements	40 years
Vehicles	15 - 20 years
Equipment	5 - 15 years

Galesburg-Charleston Fire Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and fund equity* (continued):

iii) *Fund equity* - In the fund financial statements, the Operating Fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - DEPOSITS:

Custodial credit risk of deposits is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2007, none of the Department's bank balance of \$1,533 was exposed to custodial credit risk.

NOTE 3 - CAPITAL ASSETS:

Capital asset activity of the Department for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Vehicles	\$ 662,307	\$ 73,798	\$ -	\$ 736,105
Equipment	<u>247,130</u>	<u>5,811</u>	<u>-</u>	<u>252,941</u>
Total capital assets	<u>909,437</u>	<u>79,609</u>	<u>-</u>	<u>989,046</u>
Less accumulated depreciation for:				
Vehicles	(196,945)	(46,614)	-	(243,559)
Equipment	<u>(129,776)</u>	<u>(23,109)</u>	<u>-</u>	<u>(152,885)</u>
Total accumulated depreciation	<u>(326,721)</u>	<u>(69,723)</u>	<u>-</u>	<u>(396,444)</u>
Capital assets, net	<u>\$ 582,716</u>	<u>\$ 9,886</u>	<u>\$ -</u>	<u>\$ 592,602</u>

Galesburg-Charleston Fire Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Operating Fund. The budget document presents information by function and line items. The legal level of budgetary control adopted by the governing body is the line item level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. Significant actual expenditures in excess of budgeted are as follows:

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Operating supplies	\$ 300	\$ 6,723	\$ 6,423
Utilities	\$ 1,700	\$ 3,163	\$ 1,463
Other	\$ 25	\$ 1,792	\$ 1,767

NOTE 5 - CLAIMS ARISING FROM RISKS OF LOSS:

The Department is exposed to various risks of loss due to general liability, property and casualty, and workers' compensation potential claims. The risks of loss arising from general liability up to \$1,000,000 aggregate, building contents and property damage, and workers' compensation coverage are managed through purchased commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION

Galesburg-Charleston Fire Department
BUDGETARY COMPARISON SCHEDULE - Operating Fund
Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Federal grants	\$ -	\$ 79,073	\$ 73,079	\$ (5,994)
Contributions from local units	110,000	110,000	110,000	-
Cost recoveries	5,000	5,000	3,085	(1,915)
Other	-	-	1,478	1,478
	<u>115,000</u>	<u>194,073</u>	<u>187,642</u>	<u>(6,431)</u>
Total revenues				
EXPENDITURES				
Public safety:				
Wages	52,000	52,000	49,019	2,981
Insurance	15,200	15,200	14,307	893
Rent	9,000	9,000	9,000	-
Payroll taxes	4,000	4,000	3,750	250
Utilities	1,700	1,700	3,163	(1,463)
Repairs and maintenance	8,000	8,000	7,050	950
Operating supplies	300	300	6,723	(6,423)
Fuel and oil	3,000	3,000	2,803	197
Phone	1,800	1,800	611	1,189
Professional services	2,000	2,000	1,038	962
Education and training	500	500	395	105
Other	25	25	1,792	(1,767)
	<u>97,525</u>	<u>97,525</u>	<u>99,651</u>	<u>(2,126)</u>
Total public safety				
Capital outlay	<u>10,000</u>	<u>89,073</u>	<u>79,609</u>	<u>9,464</u>
Total expenditures	<u>107,525</u>	<u>186,598</u>	<u>179,260</u>	<u>7,338</u>
CHANGE IN FUND BALANCE	7,475	7,475	8,382	907
FUND DEFICIT - BEGINNING	<u>(7,528)</u>	<u>(7,528)</u>	<u>(7,528)</u>	<u>-</u>
FUND BALANCE (DEFICIT) - ENDING	<u>\$ (53)</u>	<u>\$ (53)</u>	<u>\$ 854</u>	<u>\$ 907</u>

Members of the Board Galesburg-Charleston Fire Department

In planning and performing our audit of the financial statements of Galesburg-Charleston Fire Department (the Department) as of and for the year ended June 30, 2007, in accordance with U.S. generally accepted auditing standards, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they had been implemented, but it did not include procedures to test the operating effectiveness of controls, and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be significant deficiencies and a deficiency that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Organization's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. The accompanying schedule of comments and recommendations sets forth those matters that we consider to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control. The accompanying schedule of comments and recommendations sets forth those deficiencies that we believe constitute a material weakness.

This report is intended for the information and use of the Board, management, and others within the Department, and Michigan Department of Treasury, and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

July 8, 2008



1958-2008

Galesburg-Charleston Fire Department
SCHEDULE OF COMMENTS AND RECOMMENDATIONS

Significant deficiencies

Document retention and location

Finding:

Capital assets owned by the Department are reflected in records maintained by the outside auditor, rather than by management of the Department. By not taking responsibility for the investment in capital assets and changes therein, management runs the risk of not having knowledge about adequacy of insurance coverage, expected capital outlay needs and the relationship of repairs and maintenance to the level of capital assets. This is a recurring comment.

Recommendation:

The Department should develop and maintain a detail schedule of capital assets owned, based on a physical inventory. Both purchased and donated items should be included. The Department should also develop a capitalization policy that permits the proper reporting of capital assets within the Department's financial statements. Procedures should be established to identify annually those costs to be capitalized and to identify specific dispositions.

For those capital assets whose unit cost is below the capitalization threshold, the Fire Chief, or other responsible individual, should develop and maintain an inventory of such items. It is not necessary that cost information be included. Each year, a report should be provided to the Board as to changes therein.

Finding:

Turnover in board trustees and changes in the level of involvement by key trustees has resulted in inconsistent document retention and uncertainty as to the location of key documents. The Board is at risk when minutes, contracts, agreements, and grant awards cannot be located. This is a recurring comment.

Recommendation:

The location of key documents should not be based on who currently holds a trustee position - the Department must have an accessible, permanent location for its records. A record retention schedule should be adopted.

Testing of firemen's pay

Finding:

Calculations of firemen's pay are made by the Fire Chief, who in turn provides only gross pay amounts to the bookkeeper, for payment processing. At no time are gross pay amounts checked against fire runs for completeness and accuracy. Such checks serve to demonstrate the Board's expenditure oversight. This is a recurring comment.

Recommendation:

A random sample of three to five individuals should be selected from each pay run for testing, which would consist of comparing fire runs accumulated to actual run sheet data, testing math accuracy of total run data by individual, and recalculating gross pay amounts (run data times pay rates in effect). While it is preferable to test before the checks are processed, testing could occur shortly after check issuance. A record should be kept of which pay amounts were checked and when. Findings of the tests should be communicated to the Fire Chief and to the Board.

Galesburg-Charleston Fire Department
SCHEDULE OF COMMENTS AND RECOMMENDATIONS

Material weakness

Finding:

The Department has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. The Department has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.